

Message Text

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PAGE 01 STOCKH 05283 180910Z

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07

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FM AMEMBASSY STOCKHOLM

TO SECSTATE WASHDC 5957

INFO AMEMBASSY BONN

USMISSION EC BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY HELSINKI

AMEMBASSY LUXEMBOURG

AMEMBASSY OSLO

USMISSION OECD PARIS

AMEMBASSY MOSCOW

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E.O. 11652: N/A

TAGS: EIND, EINV, EMIN, SW, UR, ENRG

SUBJECT: PROPOSAL TO BE ADVANCED FOR REVISION OF STEELWORKS

80 PROJECT

REF: A. STOCKHOLM 3659 (NOTAL); B. STOCKHOLM A-191;

C. STOCKHOLM A-130 (NOTAL)

BEGIN UNCLASSIFIED

1. INDUSTRY MINISTER RUNE JOHANSSON HAS REACTED FAVORABLY
TOWARD RECOMMENDATION FROM BOARD OF NORRBOTTENS JARNVERK AB
(NJA) TO INCLUDE BEAM ROLLING MILL AT LULEA AND WIDE-STRIP
ROLLING MILL AT GAVLE WITHIN STEELWORKS 80 PEROJECT. PRELIMINARY
CALCULATIONS PLACE TOTAL COST OF INTEGRATED FACILITIES AT ABOUT
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PAGE 02 STOCKH 05283 180910Z

SKR 12 BILLION (US \$2.7 BILLION IN CURRENT PRICES AT CURRENT

EXCHANGE RATE), NOT INCLUDING SKR 1.5 - 2.0 BILLION IN ROLLING CAPITAL FOR INVENTORY, CUSTOMER CREDITS, ETC. REVISED PLAN IS SUBJECT TO APPROVAL BY GOVERNMENT AND PARLIAMENT.

2. REVISION CALLS FOR DEVELOPMENT OF ENLARGED PROJECT OVER TWO STAGES, THE WHOLE TO BE COMPLETED BY 1984. IN FIRST STAGE, ONE BLAST FURNACE AND RELATED EQUIPMENT WOULD GO INTO OPERATION EARLY IN 1979 AS LONG PLANNED AND BEAM ROLLING MILL WOULD GO ON LINE BY 1980-81, BOTH AT LULEA. IN SECOND STAGE, GAVLE MILL WOULD OPEN IN 1982 AND SECOND BLAST FURNACE AND ASSOCIATED FACILITIES WOULD START UP IN LULEA IN 1984.

3. MINISTER JOHANSSON'S SUPPORT FOR NEW PLAN, WHICH HE DISCUSSED AT PRESS CONFERENCE OCTOBER 16, TAKES INTO ACCOUNT (A) LONG-EXPRESSED CONCERN BY CRITICS OF PROJECT THAT PRODUCTION OF ONLY SEMI-FINISHED GOODS, WHICH ARE EXTREMELY SENSITIVE TO BUSINESS DOWNTURNS, WOULD SUBJECT PLANT TO UNACCEPTABLE MARKET RISKS, AND (B) DESIRABILITY OF EXTENDING DEVELOPMENT PERIOD FROM 1980 TO 1984 TO EASE STRAIN IMPOSED BY PROJECT OF THIS SIZE ON SWEDISH CAPITAL MARKET.

4. NEW COST FIGURES MEAN THAT EXPANSION OF SEMI-FINISHED PRODUCTION HAS NOW BEEN REVISED UPWARD TO SKR 7.3 BILLION, FROM SKR 5.5 - 6.0 BILLION ESTIMATED LAST SPRING, AND SKR 4.6 BILLION IN 1974. INVESTMENT IN TWO ROLLING MILLS IS FORESEEN TO AMOUNT TO SKR 4.5 BILLION AT CURRENT PRICES. SOME EXPERTS DOURLY PREDICT THAT INFLATION COULD DRIVE TOTAL COST UP TO SKR 20 BILLION.

5. PROJECT WILL BE SUBMITTED TO INDUSTRY COMMITTEE OF PARLIAMENT WITHIN WEEKS. LIVELY DEBATE IS LIKELY THIS SPRING IN PARLIAMENT ON WISDOM OF PUTTING LARGE PORTION OF SWEDEN'S TOTAL INDUSTRIAL INVESTMENT OVER 1975-84 DEVELOPMENT PERIOD INTO SINGLE PROJECT.

6. INDUSTRY MINISTRY SOURCE HAS INFORMED EMBOFF THAT PLANS HAVE PROCEEDED FAR ON LULEA MILL AND ANNOUNCEMENT OF KRUPP PARTICIPATION IN IT IS LIKELY NEXT SPRING. STUDY IS STILL UNDER WAY OF GAVLE MILL WITH STORA KOPPARBERG (REF B). JOHANSSON IS CONVINCED OF NECESSITY OF INTEGRATED STEELWORKS
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PAGE 03 STOCKH 05283 180910Z

AND IF ARRANGEMENTS WITH EITHER KRUPP OR STORA KOPPARBERG DO NOT MATURE, NJA MIGHT BE EXPECTED TO LOOK FOR OTHER PARTNERS.

7. HOWEVER, MINISTER JOHANSSON APPARENTLY WOULD ENTERTAIN WELL-FOUNDED CHANGES IN DETAILS OF THESE PLANS. AT PRESS CONFERENCE HE SAID THAT HE WOULD REVIEW OVERALL SITUATION OF SWEDISH STEEL INDUSTRY. EXCEPT FOR NJA, STEEL INDUSTRY NEEDS EXPENSIVE MODERNIZATION. INDUSTRY MINISTRY SOURCE TOLD EMBOFF

THAT JOHANSSON WOULD BE WILLING TO CONSIDER SUCH POSSIBILITIES AS COOPERATION BETWEEN NJA AND PRIVATE STEELWORKS AND SOME FORM OF GOVERNMENT FUNDING FACILITIES IN PRIVATE STEEL SECTOR THAT WOULD COMPLEMENT NJA INVESTMENT.

8. SWEDISH BUSINESS WEEKLY, VECKANS AFFARER, REPORTED RECENTLY THAT THERE IS BIG CHANCE THAT RUSSIANS WILL GET ORDERS FOR THE TWO NJA BLAST FURNACES BECAUSE OF THEIR SPECIAL EXPERIENCE IN BUILDING FURNACES SUITED TO HARSH CLIMATES, AS AT RAUTARUUKKI WORKS IN FINLAND. WEEKLY ADDED THAT RUSSIANS HAVE OFFERED SWEDEN 2.5 BILLION CUBIC METERS (M3) OF GAS IN CONNECTION WITH NEGOTIATIONS REGARDING FURNACES. END UNCLASSIFIED

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9. COMMENT. STEN NIKLASSON, HEAD, INTERNATIONAL SECRETARIAT, INDUSTRY MINISTRY, TOLD EMBOFF OCTOBER 17 THAT NO CONNECTION HAS YET BEEN MADE BETWEEN SUPPLY OF SOVIET GAS TO SWEDEN AND AWARD OF CONTRACTS FOR FURNACES TO USSR. NIKLASSON REMARKED THAT THERE WAS NATURAL POLITICAL LINK BETWEEN THE TWO BUT THAT NEITHER RUSSIANS NOR SWedes HAD YET UTILIZED IT. THERE WAS, HOWEVER, FAIR CHANCE THAT USSR WOULD SUPPLY HEAVY EQUIPMENT FOR STEELWORKS 80/84 AND IT WILL CERTAINLY BE INVITED TO SUBMIT TENDER. USSR, HE SAID, HAS RECENTLY RAISED ITS OFFER OF GAS TO SWEDEN FROM ONE BILLION M3 TO 2.5 BILLION M3. SWEDEN IS NOT QUITE SURE HOW SERIOUS OFFER IS; SWedes SUSPECT IT WAS THOUGHT UP IN GOSPLAN WITHOUT AGREEMENT OF SOVIET EXPORT ORGANIZATIONS. (SWEDEN HAS BEEN SEEKING 4 BILLION M3 GAS FROM USSR ANNUALLY, BUT RUSSIANS CLAIM THEY CANNOT SUPPLY THAT AMOUNT.)

STRAUSZ HUPE

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